



ICSG Information Circular

Initiatives Dealing with Transparency of Payments in the Extractive Industry

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Notice: The information contained in this document is intended to provide an overview of international initiatives addressing issues related to transparency of payments from the extractive industry to host governments, as it affects the copper industry. This paper is provided for reference purposes only. References to sites, companies, and agencies are for information purposes only.

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ICSG Info-Circular on Initiatives Dealing with Transparency of Payments in the Extractive Industry

1. Executive Summary

Significant foreign investment in developing and less developed countries occurs in the extractive industries. Revenue from this investment makes its way to governments in the form of taxes, royalties, fees and other payments. Many agencies have highlighted the need for increased in the management and reporting of these payments. In some jurisdictions, payments made to governments are simply not reported. Several initiatives have been launched in order to increase transparency from both sides of these flows: national accountability from governments and disclosure from companies. Available information from both payers and receivers would allow to compare the payments and to increase transparency.

Although there is an increasing trend to share information between companies and governments in many countries, the lack of disclosed information on the economic contribution of the mining and metals industry to some developing regions is still a concern for many stakeholders.

The ICSG Info-Circular provides background information on a series of emerging international initiatives calling for the disclosure of payments from extractive industries companies to governments. The first part of this ICSG Info-Circular summarises the most important international initiatives, whether NGO-driven, governmental or sectoral initiatives. Particular emphasis is placed on the recently launched “Publish What You Pay” initiative (PWYP) and the “Extractive Industries Transparency Initiative” (EITI).

In addition, examples of current reporting practice of copper mining companies operating or headquartered in developing world countries are provided. Afterwards, information on the potential impact of these approaches on the World Bank Group including the World Bank Extractive Industries Review debate is presented.

The PWYP initiative is a coalition of 60 NGOs calling for the mandatory disclosure of net payments made to national governments by oil, mining and gas companies in every country of operation (“revenue transparency”) in order to promote the financial accountability of governments relating to natural resources.

EITI was announced by the UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg. Its aim is to increase transparency in payments by companies in the mining, oil and gas sectors to governments and government-linked entities, as well as transparency in revenues received by governments. EITI is being taken forward through a multi-stakeholder process, with a first international workshop meeting (11-12 February in London) to explore the best mechanisms for achieving transparency of payments and to help build the coalition. A draft discussion paper has been developed including objectives of the initiative, potential benefits of transparency, and laying out preliminary options for transparency by companies and governments.

A follow-up Ministerial conference may be organised in May 2003 to foster further high-level support for the initiative that will have been created by the February working meeting and to take the initiative forward in the run up to the next G8 Summit.

Information on tax payments is available for an important share of copper mine production in developing countries. However, different levels and means of disclosure of information on tax payments are used. Some countries (such as Chile and Indonesia) develop annual sectoral reports addressing sustainable development issues (including taxation). In other countries (such as Argentina and Peru) individual majors companies disclose information on payments on a unilateral voluntary basis. In some countries where copper mines are mainly state-owned companies' information on the contribution of copper mining to the national economy is not readily available through means such as the Internet. It is recognised that these may report such payment through alternative means.

Currently, several alternative approaches for implementing transparency guidelines are being discussed. Some of the most important issues at the moment are, among others, the following:

- Broad multi-stakeholder approach versus unilateral government and/or industry approach
- The choice between a voluntary versus a mandatory approach.
- Focus solely on the extractive industry versus broad approach including other sectors
- Focus solely on economic contribution versus broad sustainable development approach
- Definition of relationships among ongoing initiatives to avoid overlapping and duplication

Some organizations (particularly NGOs) regard the World Bank Group (WBG) to be a key driver for improving transparency of payments in developing countries. Recognising this, the NGO "Global Witness" has provided input to the World Bank's Extractive Industries Review (EIR) suggesting to pick up the ideas laid out in the "Publish What You Pay Initiative". It is possible that one of the EIR's outcomes could be the recognition that the World Bank Group is a unique body for establishing itself as the leading 'clearing house' for revenue information and for building and maintaining civil society's capacity to call governments to account over the management of resource revenues.

Recognising the potential impact of the issue of transparency of payments on the copper sector, the ICSG Secretariat will continue to monitor these initiatives and provide member countries with further information on the outcomes.

2. *International Initiatives Dealing with Transparency Issues*

2.1. The “Publish What You Pay” Initiative (NGO initiative)

The ‘Publish What You Pay’ (PWYP) campaign was launched in London on 13th June 2002. PWYP is a coalition of over 60 developed and developing country NGOs including Global Witness, Amnesty UK, Friends of the Earth UK and US, Open Society Network, Oxfam GB and Oxfam America, and various chapters of Transparency International.

Extractive industry companies backing the initiative include: BP, Shell, Rio Tinto, BHP Billiton and Anglo-American, with others (TotalFinaElf, Talisman and Statoil) expressing interest in getting involved.

The coalition is calling for the mandatory disclosure of net payments made to national governments by oil, mining and gas companies in every country of operation (“revenue transparency”) in order to promote the financial accountability of governments relating to natural resources. This duty would extend to all countries where natural resources provide a major proportion of state income, where corruption associated with state income is of concern, or where companies are not fully transparent about their payments to national governments. A list of potential countries has not been published, yet. Extractive industries are becoming increasingly located in less developed countries where civil society and government transparency are proportionately weaker. At the same time, the sector cannot quickly and easily divest from problem areas. As a result, transparency issues are likely to deepen over time.

According to the initiative, political structures of some resource-rich economies “fail to bring about social and cultural changes that lead to long-term investment in social development”. Furthermore, governmental institutions that manage resource revenues are often, in practice, unaccountable to the parliaments and ordinary citizens of such countries. In many cases revenues from resource extraction are disclosed neither by the governments nor the companies involved. The initiative concludes that this lack of accountability may “facilitate embezzlement, corruption and revenue misappropriation”.

The initiative argues that disclosure of net payments made by oil, gas and mining companies to national governments disaggregated on a country by country basis would enable the citizens of those countries to call their governments to account over the management of the revenues from resource extraction. The publication of these payments would contribute to the development of transparency mechanisms to track revenues, thereby helping to ensure that these revenues are directed to proper investment in growth and development.

The initiative recognizes that mining, gas, and oil companies cannot control how governments spend taxes, royalties and fees. But it is argued that these companies do have a responsibility to disclose the payments they make so citizens can hold their governments accountable.

The initiative is not calling on companies to disclose commercially confidential information, but rather to publish the same basic data on net payments made to government and other public authorities which they are required to disclose in many developed countries. Recognising that individual companies might be put at a disadvantage by disclosing information others fail to reveal, the initiative argues that voluntary disclosure is not a viable option. In this context, sovereignty is a major issue, since countries can include non-disclosure terms in contracts and agreements and companies risk reprisals if the terms are not adhered to.

According to the initiative, governments and multilateral institutions should help empower civil society to hold governments accountable for the use revenues derived from resource extraction. For this purpose, the initiative proposes the following measures:

- Multilateral institutions should structure the revenue flows and design budget systems to encourage proper management.
- As a condition for stock exchange listing, developed country regulators should require publicly traded resource companies to disclose aggregated information about taxes, royalties, fees and other transactions with governments and/or public sector entities for the products of every country in which they operate.
- Government requirements to disclose payments should be a mandatory approach to ensure maximum coverage of payments and to avoid any competitive advantages for non-disclosing companies.
- Governments should protect companies against eventual retaliation by the resource-rich countries potentially affected by the disclosure of payments.

2.2. Governmental Initiatives

Extractive Industries Transparency Initiative – EITI (United Kingdom)

The Extractive Industries Transparency Initiative (EITI) was announced by Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. Its aim is to increase transparency over payments by companies in the mining, oil and gas sectors to governments and government-linked entities, as well as transparency over revenues by those host country governments. The initiative suggests to make public all taxes, fees and other payments that extractive industry companies make to officials in the developing countries where they operate. The initiative is designed to make the system more transparent in order to deter corruption and may help to empower people to hold their governments to account for how revenues are spent.

Governments committed to the initiative at that initial stage included Italy, Norway, Indonesia and the Central African Republic. More recently, France and South Africa have agreed to become involved. France plans to make corporate social responsibility a theme for its G8 Presidency and transparency is a key element within this. It has responded positively to the suggestion that achieving steps to promote transparency in the extractives industry might be a key deliverable at the Evian

Summit (June 1-2, 2003), building on commitments already made in the G8 Africa Action Programme.

The EITI is being taken forward through a multi-stakeholder process, with a first international workshop meeting (11-12 February in London) to explore the best mechanisms for achieving transparency of payments and to help build the coalition. A draft discussion paper has been developed including objectives of the initiative, potential benefits of transparency, and laying out options for transparency by companies and governments.

The February meeting may conclude that working groups will need to consider further some specific elements of implementation. Best practice examples of transparent behaviour in the extractive industries sector (and the benefits it brings to all parties) could be evaluated and country or regional initiatives would help to highlight the most appropriate route forwards.

A follow-up Ministerial conference may be organised in May 2003 to foster further high-level support for the initiative that has been created by the February working meeting and to take the initiative forward in the run up to the G8 Summit.

USA

The US Secretary of State for African Affairs has called for increased revenue transparency in the context of several oil projects in Africa. In this context, the Chairman of the Subcommittee on Africa, Mr Ed Royce, has proposed to promote oil revenue transparency and the rule of law in African oil-producing countries as a means for improving development in Africa.

G8-Countries

The G8's Africa Action Plan highlights the need to work with African governments, civil society, and others to address the linkage between armed conflict and the exploitation of natural resources "to ensure better accountability and greater transparency with respect to those involved in the import or export of Africa's natural resources".

The Africa Action Plan surged from the G8 summits of Genova (Italy, July 2001) and Kananaskis (Canada, June 2002) as a positive response to the New Partnership for Africa's Development (NEPAD), an initiative taken by African States in order to achieve Africa's development.

The G8's engagements in NEPAD are divided in eight major areas: Promoting Peace and Security; Strengthening Institutions and Governance; Fostering Trade, Investment, Economic Growth and Sustainable Development; Implementing Debt Relief; Expanding Knowledge: Improving and Promoting Education and Expanding Digital Opportunities; Improving Health and Confronting HIV/AIDS; Increasing Agricultural Productivity; Improving Water Resource Management.

Natural resources were identified as an important part of NEPAD. The item "Promoting Peace and Security" includes a general call to governments for "working to ensure better accountability and greater transparency with respect to those involved in the import or export of Africa's natural resources from areas of conflict".

Disclosure of tax payments to host governments is not explicitly addressed within the guidelines.

OECD Guidelines for Multinational Enterprises

Since June 2000, the OECD is implementing a set of guidelines in order to promote appropriate business conduct for international companies operating worldwide. The guidelines are part of the broader “OECD Declaration on International Investment and Multinational Enterprises”.

The guidelines are recommendations expressed by 36 (OECD and non-OECD) governments and addressed to multinational enterprises operating in or from their countries. The guidelines provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology. Adhering governments are committed to promote the guidelines among companies operating in or from their territories.

The guidelines call upon enterprises to ensure that timely, regular, reliable and relevant information is disclosed regarding their activities, structure, financial situation and performance. Information should be disclosed for the enterprise as a whole and, where appropriate, along business lines or geographic areas. Disclosure policies of enterprises should also be tailored to the nature, size and location of the enterprise, with due regard taken of costs, business confidentiality and other competitive concerns.

As in the case of the G8 Action plan transparency of tax payments is not explicitly requested from neither governments nor companies.¹

2.3. International Sectoral Initiatives

The Global Reporting Initiative (GRI)

The Global Reporting Initiative was established in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP). The key objective of this initiative is to develop globally applicable guidelines for reporting on economic, environmental, and social performance, initially for corporations and eventually for any business, governmental, or non-governmental organisation (NGO). The GRI incorporates the active participation of corporations, NGOs, accountancy organisations, business associations, and other stakeholders from around the world.

As of 2002, at least 2,000 companies around the world voluntarily report information on their economic, environmental, and social policies, practises, and performance.

¹ OECD is involved in some other related initiatives such as the OECD Corporate Governance Roundtable for Latin America established in April 2000. This initiative issued a White Paper which serves as a practical reform agenda and also forms valuable input to any future review of the OECD Principles of Corporate Governance. The third meeting took place in Mexico City, Mexico, on 8-10 April 2002, and focussed on the Board of Directors, Stakeholders and Transparency and Disclosure.

Yet, this information is generally inconsistent, incomplete, and unverified. Measurement and reporting practises vary widely according to industry, location, and regulatory requirements.

Copper mining companies which follow the GRI's guidelines include BHP-Billiton (Australia, UK), Codelco (Chile), Teck/Comico (Canada) and WMC Ltd (Australia).^{2 3}

The GRI Secretariat has entered into Memoranda of Understanding with a number of existing sector-based initiatives to provide sector supplements to the Guidelines.

To date, sectoral initiatives of relevance for the copper sector include:

- Social Performance Indicators for the Financial sector (SPI Finance 2001)
- Automotive Industry (Information forthcoming)
- Global Mining Initiative (GMI) and the Mining Minerals and Sustainable Development Project (MMSD)

Social Performance Indicators for the Financial sector (SPI-Finance 2002)

The SPI-Finance is an international project undertaken by a group of ten financial institutions: Co-operative Insurance, Credit Suisse Group, Deutsche Bank AG, Development Bank of Southern Africa, Rabobank, Swiss Re, The Co-operative Bank, UBS AG, Westpac Banking Corporation and Zürcher Kantonalbank. The proposed operational performance indicators with some relevance to the issue of transparency of tax payments include the call for disclosure of information on economic added value to society, charitable contributions, as well as assets under management and transactions with high social benefit.

The Global Mining Initiative (GMI)

The Global Mining Initiative has been initiated by nine of the world's largest mining companies to examine the role of the minerals sector in contributing to sustainable development. Through the World Business Council on Sustainable Development they contracted with the International Institute for Environment and Development (IIED) to undertake the Mining Minerals and Sustainable Development Project (MMSD). Chapter 12 of the MMSD Report "Breaking New Ground" (published in 2002) is entirely devoted to highlighting the importance of accessing information in order to support sustainable development. In addition, the MMSD undertook two workshops on information (March and December 2001), highlighting the need to set

2 The GRI is aware of many companies that state they have referred to or followed the Sustainability Reporting Guidelines in preparing their sustainability, social, or environmental report. However, since GRI is a voluntary initiative, companies are not obligated to inform. This could underestimate the number of reporting practices being developed worldwide.

3 As of 20th of January 2003. There are 2 different levels of adherence to GRI guidelines: complete or partial. Among the 5 companies fully reporting according GRI on a worldwide basis, BHP is the only mining company. Among 179 reporting partially, 3 are copper mining companies (Codelco, Teck/Cominco, WMC).

up a timely, reliable and cost effective information system in order to increase the trust of civil society.

The MMSD recommended the “establishment of criteria for a harmonized public reporting system” and suggested that more research should be pursued in order to “explore whether and how a regulatory regime might work or be established”. The MMSD entered into an agreement in June 2001 with the Global Reporting Initiative, to lay the groundwork for the future development of a mining sector supplement to the core GRI Sustainability Reporting Guidelines.

In the first draft of mining guidelines, economic indicators address issues such as Job Provision/Satisfaction/Wages, Local Economy, Spending on Environmental/Social Programs, and Land Purchases/Tax. One of the economic indicators identified under the “Land Purchases/Taxes” category is the percentage of total economic value in taxes and royalties and the percentage of value remaining in country/region of operation.

MMSD ended with the completion of the “Breaking New Ground” report in 2002. To follow up with this work, the International Council on Mining and Metals (ICMM) is in preliminary discussion with the Global Reporting Initiative (GRI) to develop a sector supplement on mining that would accompany the 2002 Sustainability Reporting Guidelines. A Memorandum of Understanding is likely to be signed with GRI in the next few months.

3. National Sectoral Initiatives and Individual Company Approaches in the Copper Mining Industry

Examples from the Developed World

The UK based mining companies Anglo American, Rio Tinto, and BHP-Billiton welcomed the initiative of the UK Prime Minister concerning transparency of payments. According to a recent joint CEO statement, the companies “look forward to working with governments, international institutions, NGO’s and other companies to develop a satisfactory framework for reporting in the interests of integrity and sustainable development”.

Anglo American

In the latest Safety, Health and Environment Report of 2001, figures concerning the expenditures for community development programmes and foundations are provided. Information on the payment of taxes and royalties are not provided on a site-specific basis, yet. Anglo American has recently published its new business principles on “Good Citizenship”. The company has committed itself to assess and report on the contribution that operations make to local social and economic development in the future.

BHP-Billiton

BHP-Billiton recognises the importance of transparency and accountability to stakeholders and communities in its business principles. In its 2002 Health Safety Environment & Community (HSEC) report, BHP-Billiton states that in 2001 company

operations throughout the world paid US\$515 million in taxes and US\$294 million in royalties to host governments. In line with the recommendations of the Mining, Minerals and Sustainable Development (MMSD) report, and in the “interests of good governance”, BHP-Billiton will be putting systems in place to enable the company to report royalties and taxes on a country-by-country basis in future HSEC Reports.

Rio Tinto

The corporate policy statement on “Transparency, Corporate Governance and Accountability” states that Rio Tinto is committed to the maximum level of transparency consistent with normal business confidentiality. In the Social and Environmental Report of 2001, detailed figures on the contribution to the global economy (10.4 billion US\$) are provided including payments of tax and royalties (1.2 billion US \$). For some operations site-specific reports are available including similar data on the economic contribution to the national and local economy.

Examples from the Developing World

Information on tax payments is available for an important share of copper mine production in developing countries. In a review of the top copper mine producing countries in the developing world (accounting for over 50% of the world copper mine production), different levels and means of disclosure of information on tax payments have been identified.

Some countries such as Chile and Indonesia develop annual sectoral reports addressing sustainable development issues (including taxation). In other countries such as Argentina and Peru individual majors companies disclose information on payments on a voluntary basis. In countries where copper mines are mainly state-owned companies' information on the contribution of copper mining to the national economy may not be disclosed (at least publicly through such means as the Internet).

Asia

Since 1999, PricewaterhouseCoopers conducts the “Indonesian Mining Industry Survey” on behalf of the Indonesian Mining Association. This voluntary survey covers 100 % of the copper sector in Indonesia. This includes the Batu Hijau mine of Newmont Mining (capacity of 300,000 tonnes of copper) and the Freeport Grasberg mine (capacity of 830,000 tonnes of copper). The survey shows the contribution of mining to the Indonesian Economy in terms of employees, compensation, purchases from domestic suppliers, government revenue, dividends paid to Indonesian shareholders, and interests paid to Indonesian companies/banks.

This exercise is important since these projects have been under strong pressure from environmentalists and other stakeholder groups for their mining practice of disposing waste and/or tailings in rivers or coastal areas. It is claimed that the disclosure of payments helped these companies to improve their reputation and the local acceptance of activities. The disclosure enabled local communities to hold their governments accountable for the spending of revenues.

Another example of voluntary disclosure of copper mining companies regarding the economic contribution to host countries in the Asian region is the Ok Tedi mine in Papua New Guinea (capacity of 160,000 tonnes of copper), the sole copper producer in Papua New Guinea. BHP-Billiton has transferred its 52% shareholding in the mine to the “PNG Sustainable Development Program”. This (non-profit) program company aims at supporting effective and sustainable community development using the revenues derived from the project. Project scope and financial data on the contribution can be expected to be published periodically.

Other Asian developing countries with important copper mine production are Kazakhstan and Mongolia. Kazakhstan’s copper production is mainly concentrated (over 90%) in Kazakhmys owned by the Kazakhstan government and Samsung Corp. (South Korea). In Mongolia, Erdenet, owned by the governments of Mongolia and Russia, produces 100% of the Mongolian copper mine production. Information on the contribution of copper mining to the national economy is not readily available through means such as the Internet. It is recognised that these operations may report such payment through alternative means. Kazakhmys and Erdenet are currently being privatised. This may increase the probability of corporate disclosure of payments to the public via the Internet in the future.

Latin America

In Chile, the “Consejo Minero” (The Mining Council) brings together the largest copper and gold mining companies operating in the country. The Council commissions an annual report to Deloitte & Touche. This report consolidates the financial statements for 19 largest mining companies based on audited statements included facts and figures concerning the payments to the government.

In Peru, information is officially requested by the investment contracts (“contratos de inversión”) signed in order to obtain approval for in-country foreign investment. Among the largest copper producers, Southern Peru Copper Corp (SPCC) and Compañía Minera Antamina (accounting for 72% of Peruvian copper mine production) clearly identify their economic contribution to Peru on a voluntary basis through annual reports and other publicly available reports.

The total copper mine production in Argentina is produced by Minera Alumbra Limited (MAA), owned by MIM Australia (50%), BHP Billiton (25%) and Rio Tinto (25%) which recently (January 2003) sold its shares to Wheaton River Minerals Ltd (Canada). The MIM’s 2002 Annual Report isolates the financial performance for the Alumbra operation providing information such as sales, operating profits and investment. Tax payments are not reported. Neither BHPBilliton nor Rio Tinto’s annual reports include site-specific information on tax payments of Alumbra.

Africa

In relation to Africa, there are three developing countries with some relevance in copper mine production: Zambia (312,000 tonnes in 2001), Democratic Republic of Congo (25,000 tonnes) and Botswana (21,000 tonnes)⁴.

Most of the current copper mine production (57%) in Zambia is carried out by Konkola Copper Mines (KCM) which belonged to Anglo American plc. until August 2002. Afterwards, KCM's ownership has been divided in Zambia Copper Investment Ltd. (ZCI) (58%, Bermuda registered investment holding company), and Zambia Consolidated Copper Mines (ZCCM) (42% of which 87% is owned by the Zambian government). Based on ZCI 2001 Annual Report (still under AngloAmerican control), taxation payments are identified.

The second most important copper mine producer in Zambia is Mopani Copper Mines Plc (36%). The main shareholders of Mopani are Glencore (Switzerland, 51%), First Quantum Minerals plc (Canada, 17%) and ZCCM (Zambian state, 10%). Only the First Quantum 2001 Annual Report includes financial statement by company allowing to identify taxes paid to the Zambian government in accordance to its participation in Mopani's ownership. First Quantum also has a stake of 2% in the Bwana Mkubwa operation for which payments are reported in the 2001 Annual Report.

Other minor copper mine producer are Metorex (3% of production, South Africa), China Non-ferrous Metals Industry's Co. (2%, China) and Avmin, Anglovaal Mining Limited (1%, South Africa). Metorex has a specific section of taxation within its financial report which allows to identify the taxes paid by country and thus to the Zambian government. Neither Anglovaal nor China Non-Ferrous Metals Industry currently report country-specific economic data.

Botswana copper mine production is concentrated in two major companies: Bamangwato Concessions Limited, BCL (56%) owned by AngloAmerican (UK), De Beers (South Africa) and the Botswana Government; and Tati Nickel Mining Co. (44%) controlled by LionOre Mining International Ltd. (Canada) and the Botswana Government. Information on the economic contribution to the Botswanian government are not provided by any of the companies.

Around 60% of copper mining in Democratic Republic of Congo is undertaken by the state-owned La Generale Des Carrieres Et Des Mines (Gecamines) which does not report on the economic contribution of copper mining to the national economy. Tax payments of First Quantum (Canada), which produce around 14% of the Congo's copper, are not identified because its Lonshi activities are accounted under the Bwana Mkubwa facilities in Zambia. The minor producer Iscor (South Africa) does also not report tax payments or other economic contributions by operation or by country.

⁴ South Africa (142,000 tonnes) is not included.

4. The Role of the World Bank Group (WBG)

Global Witness Input to the World Bank extractive Industries Review (EIR)

Some organizations (such as NGOs and the Extractive Industries transparency Initiative) regard the World Bank Group (WBG) to be a key driver for improving transparency of payments in developing countries. Recognising this, the NGO “Global Witness” has provided input to the EIR suggesting to pick up the ideas laid out in the Publish What You Pay Initiative.

Following the approach of Global Witness, revenue transparency would not require extractive businesses to provide commercially confidential information. Rather they would publish the same basic data about net tax payments and royalties to states that are disclosed in developed countries. Nevertheless, individual companies may be disadvantaged in their dealings with governments if they disclose information that other companies are willing to keep hidden. Therefore, companies may not comply with the disclosure requirements on a voluntary basis. Yet Global Witness believes that they would benefit collectively if the disclosure requirements were imposed on them and so would the citizens of non-transparent countries.

The PWYP coalition is working towards the implementation of a requirement that companies publish revenue payments on a country-by-country basis through disclosure requirements in the listing rules on securities exchanges and through general company law disclosure requirements. Global Witness recognises that there could be a competitive disadvantage to those companies that are trying to be transparent. Therefore, the PWYP campaign proposes that revenue disclosure should be made a condition for listing on major securities exchanges to level the playing field between major companies and cancel ‘gagging clauses’ often written into extraction licences.

In the absence of such a regulatory disclosure mechanism, the role of the World Bank according to Global Witness would be to promote transparency as follows:

- The WBG could circumvent individual company objections to disclosure on the basis of ‘commercial confidentiality’ by using its good offices as a ‘clearing house’ to facilitate collection and synthesis of revenue information.
- If oil, mining and gas companies could be persuaded to provide information on their payments in each country, the World Bank could then collate individual submissions and provide an estimate of net income to the corresponding countries which could then be tracked in national budgets. This information must then be openly available and provided to the public in an accessible format. Under this approach, it would be impossible to identify individual company contributions and, therefore, the necessary commercial confidentiality would be maintained.
- Finally, it is suggested that the World Bank should agree to a “Memoranda of Understanding” on this topic with all major extractive companies. Buy-in of extractive industries can be secured by linking participation with this revenue ‘clearing house’ scheme to access to other WBG projects or

funding. NGOs would then also be enabled to 'name and shame' non-participating companies.

Potential Impacts on the World Bank Extractive Industries Review (EIR)

The first two substantial questions raised in the EIR's Conceptual Framework document ask whether the World Bank Group (WBG) should invest in the extractive industries at all and whether extractive projects can be compatible with the Group's goals of sustainable development and poverty reduction.

As many organisations believe that revenue transparency is a necessary condition to promote good governance of extractive revenues, these organisations suggest that transparency should be a fundamental component of all WBG engagement with the oil, mining and gas sector. However, it is also argued that transparency by itself may not be enough to tackle revenue embezzlement. As a means for overcoming this challenge, it has been proposed that the WBG could also engage and empower domestic constituencies for governance reform in non-transparent countries to make sure that information on payments can be used by local communities to call their government to account over the management of the revenues from resource extraction.

Another issue raised in the EIR Concept Paper is that resource wealth will only translate into sustainable development and poverty reduction by means of transparent and accountable management.

It is possible that one of the EIR's outcomes could be the recognition that the World Bank Group is the appropriate body for establishing itself as the leading 'clearing house' for revenue information and for building and maintaining civil society's capacity to call governments to account over the management of resource revenues.

WBG's Natural Resource Management Program

It is important to highlight that the World Bank Group has been concerned about the linkage between institutions and natural resources for a long time. In particular, the Natural Resource Management Program includes actions and strategies for developing capacities in developing countries to improve resource management and to take it beyond the usual environmental focus.

The objectives of the Natural Resources Management Program are to:

- Promote incentives for better management and use of natural resources to improve local and national benefits and address issues of global public goods
- Design policies for rural poverty reduction and better management and use of natural resources as sources of development and livelihoods and for vulnerability reduction
- Strengthen institutions that lead to better management and use of natural resources.
- Improve and foster governance framework for effective management of natural resources

To achieve this objective, the program is building broad-based constituencies and partnerships for sustainable change and development and promoting knowledge networks for clients and staff. In this context, it is argued that transparency of payments could be one way of strengthening local communities and promoting sound management of resource revenues.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) is a member of the World Bank Group. It promotes sustainable private sector investment in developing countries as a way to reduce poverty and improve peoples lives. In the copper sector, recently financed projects include the Konkola mine in Zambia, the Erbakir wire rod plant in Turkey, and the brass mills Dae Chang Industrial in Korea and Sofia-Med (Halcor) in Bulgaria.

IFC recognises and endorses the fundamental importance of transparency and disclosure in the development process claiming that consultation and sharing of information on projects with affected stakeholders enhances accountability, transparency and improved decision-making of IFC operations.

The IFC's Disclosure Policy embodies a presumption in favor of disclosure where disclosure would not materially harm the business and competitive interests of clients. For each project, the IFC discloses investment information including environmental and social impacts to locally affected people and other interested parties. Information on tax payments and other contributions to the host economy are usually not disclosed via the publicly available project information sheets.

In a press release on 30 September 2002, Peter Woicke, Executive Vice President of the International Finance Corporation (IFC), stated that: "The issue of disclosing payments from extractive industries to developing nation governments has been contentious in recent years. Critics of the industries have argued that royalties and other revenues, which often run to the billions of dollars, are not properly accounted for and subject to abuse by government officials. Developing country governments counter that the degree of disclosure should be determined by each nation."

Regarding IFC projects, follow-up action concerning transparency of payments to host countries can be expected for the near future.

World Bank Disclosure Agreements

The World Bank Group has incorporated a disclosure agreement into one of its extractive industries projects, the Chad-Cameroon pipeline, which is currently under construction. However, such disclosure agreements are not mandatory but are regarded to be exemplary approaches potentially providing guidance to other future oil and mining projects in Africa.. The Chad-Cameroon pipeline project, at \$3.7 billion is the largest U.S. investment in Africa. This agreement between energy companies, the World Bank, the two governments, and civil society aims to ensure that oil revenues actually benefit local citizens. It earmarks oil revenues for social spending and for future generations through internationally audited accounts.